

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

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INDEPENDENT AUDITORS' REPORT

To the Honorable Administrative Control Board
Gunnison Valley Hospital Special Service District
Gunnison, Utah 84634

We have audited the accompanying financial statements of Gunnison Valley Hospital Special Service District (the Hospital), a component unit of Sanpete County, as of and for the year ended June 30, 2007.

These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gunnison Valley Hospital Special Service District as of June 30, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2007 on our consideration of Gunnison Valley Hospital Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages MDA-1 through MDA-6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

August 2, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of Gunnison Valley Hospital Special Service District's (GVH) annual financial report, GVH's management provides narrative discussion and analysis of the financial activities of GVH for the fiscal year ended June 30, 2007.

Financial Highlights

- GVH's assets exceeded its liabilities (net assets) by \$20,667,702 for fiscal year 2007 which was an increase of \$1,494,872 from fiscal year 2006's net assets recorded at \$19,172,830. This increase in net assets is a product of the operating activities of the entity which is engaged in healthcare services to the communities in Sanpete, Sevier and Wayne Counties, Utah.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$8,969,876 include land, buildings and equipment, net of accumulated depreciation and debt related to the purchase of capital assets.
 - (2) Restricted endowment and restricted debt service of \$3,034 and \$176,704 respectively.
 - (3) Restricted capital assets of \$3,093,374 for the hospital improvement and replacement project.
 - (4) Unrestricted net assets of \$8,424,714, which represents the portion available to maintain the facility for quality healthcare and continuing obligations to employees and creditors. The unrestricted net assets are in the form of cash, investments, receivables, inventory and other current assets.
- The current ratio (current assets divided by current liabilities) of the entity decreased to 10.1 in 2007 compared to 13.1 in 2006. Current liabilities increased by \$530,528 from \$1,099,831 in 2006 to \$1,630,359 in 2007 and non-current liabilities increased by \$3,287,486 to \$5,291,822 for the fiscal year reported due to new bond debt of \$3,500,000.

Overview of the Financial Statements

Management's Discussion and Analysis introduces GVH's basic financial statements. The basic financial statements include: (1) The Statement of Net Assets, (2) the Statement of Revenues, Expenses, and Changes in Net Assets and (3) the Statement of Cash Flows. GVH also includes notes to the financial statements to assist in understanding the basic financial statements.

The first of these statements is the *Statement of Net Assets*. This statement presents information that includes all GVH's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of GVH is improving or deteriorating. Evaluation of the overall economic health of GVH would extend to other non-financial factors such as the

number of physicians on the medical staff, visiting specialists serving the communities and the variety and strength of services offered by the entity.

The second statement is the *Statement of Revenues, Expenses, and Changes in Net Assets* which reports how net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important function of this statement is to show the financial reliance of GVH on the revenues provided by GVH's patients and the expenditures by category that we made during the fiscal year.

The third statement is the *Statement of Cash Flows* and is designed to report on where GVH received its cash funds and how those cash funds were used in three main categories: (1) Cash Flows From Operating Activities, (2) Cash Flows From Capital and Related Financing Activities and (3) Cash Flows From Investing Activities.

Finally, the notes to the basic financial statements present essential information intended to assist the reader in understanding these statements and are found immediately after the basic financial statements.

Financial Analysis

GVH's net assets are summarized in the table below. The table shows a \$1,494,872 increase in net assets from \$19,172,830 in 2006 to \$20,667,702 in 2007.

Summary of Net Assets
June 30, 2007 and 2006

	2007	2006	Amount Change	% Change
Assets				
Cash and cash equivalents and investments	\$13,102,166	\$11,771,326	\$1,330,840	11.3%
Accounts receivable (net of allowance)	2,546,689	1,926,546	620,143	32.2%
Other current assets	787,078	735,555	51,523	7.0%
Restricted cash, cash equivalents & investments	179,738	173,354	6,384	3.7%
Capital assets	10,974,212	7,670,216	3,303,996	43.1%
Total assets	27,589,883	22,276,997	5,312,886	23.8%
Liabilities				
Total current liabilities	1,630,359	1,099,831	530,528	48.2%
Total noncurrent liabilities	5,291,822	2,004,336	3,287,486	164.0%
Total liabilities	6,922,181	3,104,167	3,818,014	123.0%
Net assets				
Invested in capital assets, net of related debt	8,969,876	5,458,857	3,511,019	64.3%
Restricted, endowment	3,034	3,034	0	0.0%
Restricted, debt service	176,704	170,320	6,384	3.7%
Restricted, capital assets	3,093,374			100.0%
Unrestricted	8,424,714	13,540,619	-5,115,905	-37.8%
Total net assets	\$20,667,702	\$19,172,830	-\$1,598,502	-8.3%

As can be seen from above cash and cash equivalents and investments increased by \$1,330,840 from fiscal year ending 2006. This increase \$3.5 million was fed by debt obtained to pay for the hospital improvement and replacement construction project less payment for the completed medical office and homecare building completed during fiscal year 2007. Capital assets net of depreciation increased during the year by \$3,303,996 or 43.1% due to the investment of \$4,280,994 in such items as a medical office building, a homecare building, patient monitors, infusion pumps, surgical equipment, replacing the galvanized pipe in the hospital and other operating equipment that were added during fiscal year 2007.

Note that the current and non-current liabilities of GVH increased by \$3,287,486 or 164% from the end of fiscal year 2006 as new bond debt was incurred during fiscal year 2007 for the project.

A Summary of the Statement of Revenues, Expenses and Changes in Net Assets is shown below comparing fiscal year 2007 to fiscal year 2006 with changes shown and discussed following the table.

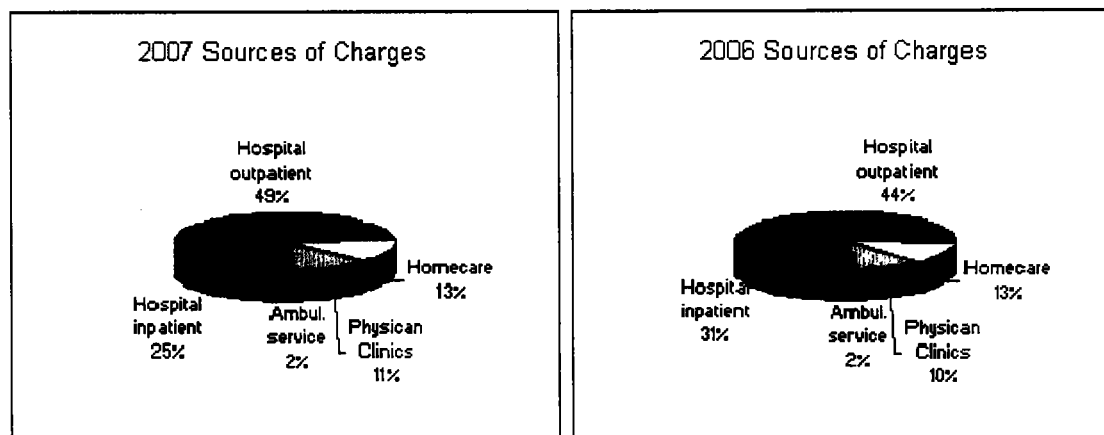
Summary of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2007 and 2006

	2007	2006	Amount Change	% Change
Operating Revenue				
Net patient service revenue	\$13,931,992	\$13,636,865	\$295,127	2.2%
Charity Care	(221,682)	(198,228)	(23,454)	11.8%
Other operating revenue	212,237	230,618	(18,381)	-8.0%
Total operating revenues	13,922,547	13,669,255	253,292	1.9%
Operating Expenses				
Salaries, wages and benefits	7,089,555	6,504,532	585,023	9.0%
Contract and purchased services	1,200,044	1,156,860	43,184	3.7%
Supplies	2,025,834	1,902,349	123,485	6.5%
Provision for bad debts	512,418	456,874	55,544	12.2%
Depreciation and amortization	975,428	912,223	63,205	6.9%
Other	1,128,641	1,040,983	87,658	8.4%
Total operating expenses	12,931,920	11,973,821	958,099	8.0%
Operating income	990,627	1,695,434	(704,807)	-41.6%
Nonoperating Revenues (Expenses)				
Interest income	544,135	374,486	169,649	45.3%
Interest expense	(50,368)	(53,574)	3,206	-6.0%
Other nonoperating revenue	10,250		10,250	
Gain/(loss) on disposal of assets	228	(12,617)	12,845	-101.8%
Total nonoperating revenues (expenses)	504,245	308,295	195,950	63.6%
Change in Net Assets	1,494,872	2,003,729	(508,857)	-25.4%
Net assets - beginning of year	19,172,830	17,169,101	2,003,729	11.7%
Net assets - end of year	\$20,667,702	\$19,172,830	\$1,494,872	7.8%

Operating Revenues. Total operating revenues increased by \$253,292 or 1.9% from fiscal year 2006. This increase reflected growth in the outpatient volume of services provided during fiscal year 2007, however, inpatient services were down 18% from 2006. Outpatient Revenue increases were seen in the hospital emergency room and surgery services, in homecare and the provider clinic services of the entity. Inpatient services decreased in general across the State as less respiratory and influenza cases were seen during the fiscal year. Charity care charges forgone totaled \$221,682 for 2007 and \$198,228 for 2006.

The source of patient charges or revenues by patient type as a percent of total charges is broken out graphically below.



The graphs show that the largest source of patient charges came from hospital outpatient charges, 49% in 2007 and 44% in 2006, followed by hospital inpatient charges of 25% and 31% respectively, Homecare (home health and hospice) charges were next at 13% in 2007 and 2006, followed by employed physician clinics at 11% and 10% respectively, and finally the ambulance service accounted for 2% of the charges in 2007 and in 2006.

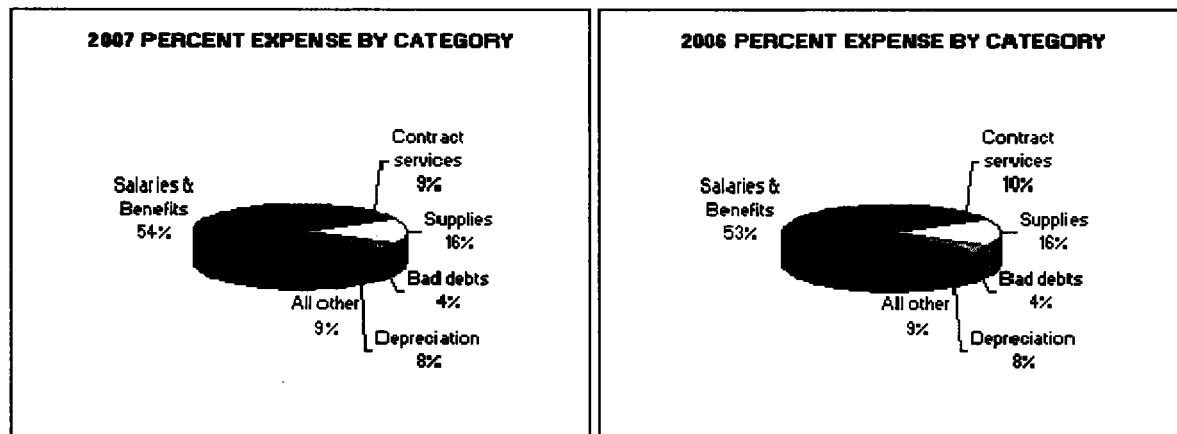
Operating Expenses. The operating expenses of the GVH for 2007 exceeded the prior year by \$958,099 or 8.0%. This expense increase was greater than the 1.9% increase in total operating revenues. Expense by category differed from the prior year ranging from an 12.2% increase in "Provision for bad debts" to 3.7% increase in "Contract and purchased services" as presented in the table of the "Summary of Revenues, Expenses, and Changes in Net Assets" previously shown. A brief explanation of the operating expense variances in fiscal year 2007 as compared to fiscal year 2006 by expense category will follow.

Salaries, wages and benefits increased from the prior year by \$585,023 or 9.0% because GVH employees received a wage rate increase and the addition 11.9 full-time equivalent employees during the year reported. Benefits expense increased with salaries and wages for costs related to payroll taxes, health insurance and retirement expense.

Contract purchase services increased from prior year by \$43,184 or 3.7% because of increased by volume related expenses for reference lab services, blood administration costs, sleep study services, MRI services and hospice nursing home costs. The increased cost of these services was offset by the loss of occupational therapy services. The increase in

supplies expense of \$123,485 or 6.5% as compared to the prior year were related to volume increases in surgical services, therapeutic patient mix changes in pharmacy and minor equipment expensed as part of the completion of a new medical office building. Bad debt expense was \$55,544 higher than the prior year as the entity had a slight rise in uninsured usage and collection efforts struggled because of employee turnover in 2007. The category of depreciation and amortization was \$63,205 or 6.9% higher in 2007 than 2006 as the medical office building was completed and began to depreciate. All other expenses, which include the expense categories of maintenance, rents, utilities, insurance, and other expense had an increase of \$87,658 from the prior year. The largest single variance was in maintenance expense as equipment was repaired and maintenance contract premiums increased. Malpractice insurance also increased over the prior year and the entity incurred physician recruitment expenses for two new providers contributing to the "Other" expense category variance.

The graphs below show the percentage that each expense category is to total operating expense.



As shown above the largest expense of GVH is in the category of salaries and benefits comprising 54% of total operating expenses in 2007 and 53% in 2006. Supplies expense accounted for the next highest category at 16% of total operating expenses in 2007 and 2006. The next category of contract services was at 9% of total operating expense in 2007 and 10% 2006, depreciation expense followed at 8% in 2007 and in 2006, all other expenses were at 9% of total expense in 2007 and in 2006 and bad debt was at 4% of total operating expenses in 2007 and in 2006.

Non-operating Revenues (Expense). Non-operating revenues and expenses were comprised of interest income, interest expense, other non-operating revenue and losses on disposal of assets. Interest income was up in 2007 by \$169,649 from fiscal year 2006 because of the increase in interest rates and the increase in average cash balances during the year. Interest expense was less in fiscal year 2007 by \$3,206. GVH was granted \$10,250 for information technology infrastructure and recorded it as "Other nonoperating revenue" in 2007. GVH also recorded a "Gain/(Loss) on disposal of equipment" of \$228 (Gain) in 2007 and a loss of \$12,617 as equipment was replaced during the fiscal years presented.

Change in Net Assets. The result of the operating revenues, expenses and non-operating activities was a change in net assets of \$1,494,872 in fiscal year 2007 as compared to a change in net assets of \$2,003,729 in fiscal year 2006. This change in net assets has allowed GVH to invest \$4,280,944 in patient care technology, equipment and facilities during fiscal year 2007 and \$391,856 in fiscal year 2006.

Summary

GVH has been fortunate to have had sound fiscal performance of its operating activities for the fiscal year's as presented. This performance has allowed GVH to invest in needed healthcare technology, physical plant and equipment while maintaining quality healthcare providers, nurses, technicians, and professional staff to serve the people of its' communities.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Net Assets

June 30, 2007

With Comparative Totals for June 30, 2006

ASSETS	2007	2006
Current Assets		
Cash and cash equivalents (Notes 1, 2 and 3)	\$ 2,667,054	\$ 5,048,073
Investments (Notes 2 and 3)	3,777,823	6,723,253
Accounts receivable (net of allowance for doubtful accounts and contractual adjustments of \$1,631,826 and \$1,313,485 in 2006 - Note 1)	2,546,689	1,926,546
Other receivables	27,403	9,037
Inventory (Note 1)	597,033	569,461
Other current assets	162,642	157,057
Restricted cash and cash equivalents (Note 2)	6,657,289	
Total current assets	<u>16,435,933</u>	<u>14,433,427</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Note 2)	3,034	3,034
Restricted investments (Note 2)	176,704	170,320
Capital assets (Notes 1 and 4)		
Land and construction in progress	1,443,651	461,821
Depreciable buildings and equipment, net	9,530,561	7,208,395
Total noncurrent assets	<u>11,153,950</u>	<u>7,843,570</u>
Total assets	<u><u>\$ 27,589,883</u></u>	<u><u>\$ 22,276,997</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 685,191	\$ 245,301
Accrued payroll and related liabilities	577,077	555,512
Estimated third-party payor settlements payable	94,467	38,063
Accrued interest	61,110	53,932
Current portion of long-term debt (Note 5)	212,514	207,023
Total current liabilities	<u>1,630,359</u>	<u>1,099,831</u>
Noncurrent Liabilities		
Bonds payable (Note 5)	5,249,284	1,943,775
Notes payable (Note 5)	42,538	60,561
Total noncurrent liabilities	<u>5,291,822</u>	<u>2,004,336</u>
Total liabilities	<u><u>\$ 6,922,181</u></u>	<u><u>\$ 3,104,167</u></u>
NET ASSETS (NOTES 1 AND 14)		
Invested in capital assets, net of related debt	\$ 8,969,876	\$ 5,458,857
Restricted, endowment	3,034	3,034
Restricted, debt service	176,704	170,320
Restricted, capital assets	3,093,374	
Unrestricted	8,424,714	13,540,619
Total net assets	<u><u>\$ 20,667,702</u></u>	<u><u>\$ 19,172,830</u></u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2007

With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u>	<u>2006</u>
Operating Revenue		
Patient service revenue	\$ 17,056,202	\$ 16,924,029
Deductions from revenue (Medicare and other)	<u>(3,345,892)</u>	<u>(3,485,392)</u>
Net patient service revenue	13,710,310	13,438,637
Other operating revenue	<u>212,237</u>	<u>230,618</u>
Total operating revenues	<u>13,922,547</u>	<u>13,669,255</u>
Operating Expenses		
Salaries and wages	5,213,257	4,810,916
Benefits	1,876,298	1,693,616
Contract and purchased services	1,200,044	1,156,860
Supplies	2,025,834	1,902,349
Maintenance	250,234	213,914
Rents and leases	139,594	137,285
Utilities	201,370	198,450
Insurance	225,880	206,339
Provision for bad debts	512,418	456,874
Depreciation and amortization	975,428	912,223
Other	<u>311,563</u>	<u>284,995</u>
Total operating expenses	<u>12,931,920</u>	<u>11,973,821</u>
Operating income	<u>990,627</u>	<u>1,695,434</u>
Nonoperating Revenues (Expenses)		
Interest income	544,135	374,486
Interest expense	(50,368)	(53,574)
Other nonoperating revenue	10,250	
Gain (loss) on disposal of assets	<u>228</u>	<u>(12,617)</u>
Total nonoperating revenues (expenses)	<u>504,245</u>	<u>308,295</u>
Change in Net Assets	1,494,872	2,003,729
Net assets - beginning of year	<u>19,172,830</u>	<u>17,169,101</u>
Net assets - end of year	<u>\$ 20,667,702</u>	<u>\$ 19,172,830</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Cash Flows

For the Year Ended June 30, 2007

With Comparative Totals for the Year Ended June 30, 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities		
Receipts from customers	\$ 12,634,153	\$ 12,870,548
Payments to suppliers	(1,613,516)	(2,160,910)
Payments to employees	(7,067,990)	(6,494,723)
Payments for services	(1,883,113)	(1,786,587)
Payments for rents and leases	(139,594)	(137,285)
Other payments	(311,563)	(284,995)
Other receipts	190,108	228,399
Net cash provided by operating activities	<u>1,808,485</u>	<u>2,234,447</u>
Cash Flows From Capital and Related Financing Activities		
Principal payments on long-term debt	(207,023)	(185,000)
Proceeds from issuance of debt	3,500,000	
Capital contributions	10,250	
Purchase of property and equipment	(4,268,746)	(391,856)
Proceeds from sale of property and equipment	1,800	
Interest paid	(55,440)	(61,273)
Net cash used by capital and related financing activities	<u>(1,019,159)</u>	<u>(638,129)</u>
Cash Flows From Investing Activities		
Proceeds (purchase) of investments	2,939,046	(287,023)
Interest income	547,898	374,139
Net cash provided by investing activities	<u>3,486,944</u>	<u>87,116</u>
 Increase in cash and cash equivalents	 4,276,270	 1,683,434
Cash and cash equivalents at beginning of year	<u>5,051,107</u>	<u>3,367,673</u>
 Total cash and cash equivalents at end of year	 <u>\$ 9,327,377</u>	 <u>\$ 5,051,107</u>
 Cash and cash equivalents	 \$ 2,667,054	 \$ 5,048,073
Restricted cash and cash equivalents	<u>6,660,323</u>	<u>3,034</u>
 Total cash and cash equivalents at end of year	 <u>\$ 9,327,377</u>	 <u>\$ 5,051,107</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Statement of Cash Flows (Continued)

For the Year Ended June 30, 2007

With Comparative Totals for the Year Ended June 30, 2006

Reconciliation of operating income to net cash provided by operating activities

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities		
Net operating income	\$ 990,627	\$ 1,695,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	975,428	912,223
Change in assets and liabilities:		
Net accounts receivable	(620,143)	(70,160)
Other receivables	(22,129)	(2,219)
Inventory	(27,572)	(17,691)
Other current assets	(5,585)	(11,024)
Accounts payable	439,890	(240,870)
Accrued payroll and related liabilities	21,565	9,809
Estimated third-party payor settlements	56,404	(41,055)
Net cash provided by operating activities	<u>\$ 1,808,485</u>	<u>\$ 2,234,447</u>

Supplemental Disclosures

The Hospital capitalized \$12,500 of interest expense.

GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements and notes of Gunnison Valley Hospital Special Service District have been prepared in accordance with *Government Auditing Standards*, generally accepted accounting principles in the United States of America, and as prescribed by the Governmental Accounting Standards Board (GASB) and accounting principles set forth in the Guide to "Audits of Providers of Health Care Services" issued by the Committee on Health Care of the American Institute of Certified Public Accountants. A summary of the more significant accounting policies is stated below.

Special Service District

On October 5, 1994, the Hospital began operating as an independent Special Service District (the District) of Sanpete County, Utah, providing health care and associated medical services. Under the guidelines established by GASB 39, the District has been determined to be a component unit of Sanpete County for financial accounting purposes and is included as a discrete component unit in the County's financial statements. Formerly, the Hospital operated under an Interlocal Cooperation Agreement entered into on July 1, 1967 between the City of Gunnison, Utah and the Towns of Centerfield, Fayette, and Mayfield, Utah (the City and Towns). All governing rights, powers, and authorities as well as the responsibility for the Hospital's operations are vested in the Administrative Control Board (the Board). Potential board members are selected by a committee that is appointed by the Board. Final determination is by the current governing board.

In the event of termination of the Hospital or liquidation of the Hospital's assets, the City and Towns have the following undivided percentage interests in the net assets of the Hospital: City of Gunnison, 62%; Town of Centerfield, 19%; Town of Mayfield, 13%; and the Town of Fayette, 6%.

Cash and Cash Equivalents

The Hospital considers all highly liquid debt and equity instruments with a maturity of less than three months when purchased to be cash equivalents.

Receivables

The Hospital's receivables are from patients who are generally from Gunnison and the surrounding rural areas in Sanpete, Sevier and Wayne Counties. An allowance for third party payor contractual discounts has been established by monitoring the average contractual discounts taken, as compared to charges by payor. This allowance is adequate as determined by management to cover anticipated contractual discount write-offs. Uncollectible accounts are charged to the allowance for doubtful accounts when collection efforts have ceased. Contractual discounts and administrative write-offs for third party payors are charged to operations in the period payments are received.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables (Continued)

A provision or allowance for doubtful accounts is maintained separately from the allowance for contractual discounts. After a patient responsibility account has received a series of letters (about 105 days after discharge) the account is placed with a pre-collection agency for ninety days. If the account is not resolved by the pre-collection agency, it is turned over to a collection agency and written off by charging the allowance for doubtful accounts and reducing the accounts receivable balance.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Differences between retroactive adjustments and accrued settlements are recognized in the Hospital's financial records in the year of settlement.

Inventory

Inventory is valued at the lower of cost or market. Cost is determined by the first-in, first-out method.

Basis of Accounting

Proprietary funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and non-current, are included on the statement of net assets. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Proprietary funds follow all Governmental Accounting Standards Board (GASB) pronouncements. In addition, all Financial Accounting Standards Board (FASB) statements and pronouncements issued on or before November 30, 1989 are followed, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

The principal operating revenues of the Hospital are fees for healthcare and related services provided to residents within Gunnison and the surrounding areas. Operating expenses for the Hospital include the costs of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no significant reductions in coverage from the prior year and settled claims have not exceeded this commercial coverage in any of the three preceding years. The Hospital is commercially insured for medical malpractice claims and judgments, as discussed in Note 9.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the Hospital as assets with an initial, individual cost of more than \$1,000. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Depreciation is computed using the straight-line method over the useful life of the asset. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Years</u>
Buildings and improvements	5 - 40
Equipment	5 - 10
Land improvements	10 - 20
Vehicles	2 - 10
Moveable equipment	2 - 20
Fixed equipment	5 - 20

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period.

Assets the Hospital is constructing are not placed in service until the construction is complete; therefore, no depreciation is taken.

Budgeting

The Hospital's governing board adopts a budget for each fiscal year prior to the beginning of the year. These budgets are amended during the year, as the board deems necessary, to accommodate current operations and are accepted by official vote of the board. The board amended the budget for the year ending June 30, 2007.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Unrestricted and Restricted Donations

In accordance with the AICPA audit and accounting guide, "Audits of Providers of Health Care Services," unrestricted donations are accounted for as non-operating revenue. Donations restricted for operating purposes are accounted for as other revenue and donations restricted for land, building, and equipment are accounted for as non-operating revenue.

Compensated Absences

The Hospital's compensation policy permits employees to accumulate unused vacation. Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment. The amount of accrued vacation is \$248,709 as of June 30, 2007.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Hospital or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Hospital first utilizes restricted resources to finance qualifying activities.

Reclassifications

Comparative data for the prior year have been presented in the financial statements to provide an understanding of changes in the Hospital's financial position and results of operations. Certain data for the year ended June 30, 2006 have been reclassified to conform to the June 30, 2007 presentation.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits and investments for the Hospital are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, “the Act”) and by rules of the Utah Money Management Council (the Council). Following are discussions of the Hospital’s exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital’s deposits may not be recovered. The Hospital’s policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Hospital to be in a *qualified depository*, defined as any financial institution whose deposits are insured, up to a mandatory limit, by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2007, \$5,768,966 of the Hospital’s bank balances of \$6,068,966 were uninsured and uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of failure of the counterparty, the Hospital will not be able to recover the value of its investments that are in the possession of an outside party. As with Deposits, the Hospital’s policy for managing custodial credit risk of investments is to adhere to the Money Management Act.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Hospital’s policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investments securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as “first-tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rate “A” or higher by two nationally recognized statistical rating organizations defined in the Act.

The Hospital is authorized to invest in the Utah Public Treasurer’s Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 2 — DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

Following are the Hospital's investments at June 30, 2007:

Investment Type	Fair Value	Maturity	Credit Quality	% of Investments
PTIF	\$ 8,037,358	Less than 1 year	Not Rated	N/A
Certificates of Deposit	811,511	Less than 1 year	N/A	N/A
Externally Managed Investment Portfolio				
Cash and Equivalents	\$ 209,255	N/A	N/A	6.68
Nabisco, Inc	\$ 206,618	Less than 1 year	A3	6.38
Core Investment Grade Plus	\$ 99,862	Less than 1 year	A3	3.17
Mitten GMAC C/P	\$ 299,954	Less than 1 year	P-1	9.57
Albis Capital Corp	\$ 299,822	Less than 1 year	P-1	9.57
Madrona Res Fndg C/P	\$ 309,815	Less than 1 year	P-1	9.88
North Lake Cap C/P	\$ 299,552	Less than 1 year	P-1	9.56
Mint II LLC C/P	\$ 159,712	Less than 1 year	P-1	5.10
Tiger Peg Cap C/P	\$ 309,169	Less than 1 year	F-1	9.86
Neptune Fndg C/P	\$ 199,325	Less than 1 year	F-1	6.36
PB Finance C/P	\$ 298,020	Less than 1 year	P-1	9.51
CIT Group Inc	\$ 200,379	Less than 1 year	A2	6.38
CIT Group Inc	\$ 251,531	Less than 1 year	A2	7.98
Investment Portfolio Total	<u>\$ 3,143,016</u>			

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Hospital manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the Hospital's investments are noted above.

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. The Hospital's policy to limit this risk is to adhere to the rules of the Money Management Council. The Council's rule 17 limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the Hospital's portfolio at the time of purchase.

The Hospital has Certificates of Deposit (CDs) that are generally categorized as commercial paper. Though CDs are generally categorized as commercial paper, the Money Management Council defines CDs as "Deposits" and excludes them from the limit requirements when calculating the concentration of credit risk.

However, the Hospital's externally managed investment portfolio is subject to the concentration limit requirements. As noted in the table above, the Hospital's investments are within the limits established by the Council's rule 17.

NOTE 3 – ASSETS LIMITED AS TO USE

The following asset designations have been made by the Hospital's Board:

Restricted:

Cash - endowment	\$ 3,034
Cash - capital assets	3,093,374
Investments - debt service	176,704
Total	<u>\$ 3,273,112</u>

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment includes the following at June 30, 2007:

	Balance 6/30/2006	Additions	Deletions	Transfers	Balance 6/30/2007
Capital assets, not being depreciated					
Land	\$ 394,790	\$ 18,400			\$ 413,190
Construction in progress	67,031	1,015,462		\$ (52,032)	1,030,461
Total capital assets, not being depreciated	461,821	1,033,862		(52,032)	1,443,651
Capital assets, being depreciated					
Buildings and land improvements	6,721,195	2,438,986	\$ (77,300)	52,032	9,134,913
Leasehold improvements	170,369				170,369
Major moveable equipment	5,472,486	808,148	(40,232)		6,240,402
Total capital assets, being depreciated	12,364,050	3,247,134	(117,532)	52,032	15,545,684
Less: accumulated depreciation	(5,155,655)	(975,428)	115,960		(6,015,123)
Total depreciable capital assets, net	7,208,395	2,271,706	(1,572)	52,032	9,530,561
Total capital assets, net	\$ 7,670,216	\$ 3,305,568	\$ (1,572)	\$ - 0 -	\$ 10,974,212

NOTE 5 – NOTES AND LONG-TERM DEBT

Series 1995 General Obligation Bonds

The Hospital issued Series 1995 General Obligation Hospital Bonds in the amount of \$1,350,000 at 2.5% interest for the purpose of constructing an addition to the hospital. Principal and interest payments are due August 1 of each year beginning in 1995 through 2014.

Series 2002 Hospital Revenue Bonds

The Hospital issued Series 2002 Hospital Revenue Bonds in the amount of \$2,000,000 at 2.5% interest for the purpose of constructing an addition to the hospital or building a physician's clinic. Principal and interest payments are due July 1 of each year beginning in 2003 through 2017. If annual principal payments are not paid timely, both issues will be subject to an 18% interest rate.

Series 2007 Hospital Revenue Bonds

The Hospital issued Series 2007 Hospital Revenue Bonds in the amount of \$3,500,000 at 3.5% interest for the purpose of constructing an addition to the hospital. Principal and interest payments are due

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 5 — NOTES AND LONG-TERM DEBT (CONTINUED)

Series 2007 Hospital Revenue Bonds (Continued)

January 1 of each year beginning in 2009 through 2028. If annual principal payments are not paid timely, the issue will be subject to an 18% interest rate.

Dr. Lamar Stewart Note Payable

The Hospital purchased a medical clinic building and associated land from Dr. Stewart in the amount of \$80,181 at 2.5% interest. An initial payment of \$19,620 was made in 2005 leaving a remaining balance of \$60,561. Principal and interest payments are due July 1 of each year beginning in 2006 through 2009.

The Hospital's long-term liabilities for the year ended June 30, 2007 are as follows:

	Balance 6/30/2006	Additions	Reductions	Balance 6/30/2007	Due Within One Year
Bonds					
CIB 1995	\$ 689,000		\$ (69,000)	\$ 620,000	\$ 71,000
CIB 2002	1,461,798		(120,000)	1,341,798	123,000
CIB 2007		\$ 3,500,000		3,500,000	
Note payable					
Dr. Lamar Stewart	60,561		(18,023)	42,538	18,514
Total long-term debt	<u>\$ 2,211,359</u>	<u>\$ 3,500,000</u>	<u>\$ (207,023)</u>	<u>\$ 5,504,336</u>	<u>\$ 212,514</u>

The following is a schedule of long-term debt maturities by year:

Year Ended June 30	Principal	Interest	Total
2008	\$ 212,514	\$ 50,151	\$ 262,665
2009	347,024	167,311	514,335
2010	332,000	157,380	489,380
2011	343,000	147,800	490,800
2012	351,000	137,895	488,895
2013-2017	1,701,798	533,125	2,234,923
2018-2022	906,000	326,725	1,232,725
2023-2027	1,074,000	156,870	1,230,870
2028	237,000	8,295	245,295
	5,504,336	1,685,552	7,189,888
Less current portion:	(212,514)	(50,151)	(262,665)
	<u>\$ 5,291,822</u>	<u>\$ 1,635,401</u>	<u>\$ 6,927,223</u>

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 6 — OPERATING LEASE COMMITMENTS

The Hospital has four lease agreements: the Jackson Family Practice, a conference room, a specialist medical clinic and the Monroe Clinic. Each lease has a monthly payment required of \$3,000, \$400, \$1,150 and \$375 respectively with lease ending dates of December 2009, September 2007, September 2007 and June 2011, respectively.

The following is a schedule by year of future minimum lease payments required under operating lease agreements. All have initial or remaining terms in excess of one year as of June 30, 2007:

Year Ended	
<u>June 30</u>	<u>Lease Payments</u>
2008	\$ 45,150
2009	40,500
2010	22,500
2011	<u>4,500</u>
Total	<u>\$ 112,650</u>

NOTE 7 — NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. During the 2006 fiscal year the Hospital converted from a reimbursement system based upon prospectively determined rates per diagnosis to a system of that is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. This change took place December 30, 2005. The conversion was based upon the Hospital qualifying with Medicare as a critical access hospital (CAH).

At June 30, 2007, the cost report for the stub period that began July 1, 2005 and ended December 29, 2005 when the hospital transitioned from Prospective Payment System status to CAH has been finalized. Reports for December 30, 2005 through June 30, 2006 and July 1, 2006 through June 30, 2007 have been filed and final determination is pending. Final determination adjustments are included in operations in the year of occurrence.

**GUNNISON VALLEY HOSPITAL
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A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 7 – NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a discount from established charges methodology. Outpatient services are reimbursed according to a Medicaid fee schedule.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, fee schedules and discounts from established charges.

NOTE 8 – RETIREMENT PLANS

The Hospital contributes to the Local Government Contributory and Local Government Noncontributory Retirement Systems cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code* Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory and Noncontributory Retirement Systems. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Under provisions of the contributory plan, the Hospital contributed 2.05% of the required 6% employee contribution to the vested account of the employees for the year ended June 30, 2007. The Hospital also contributed a matching portion of 7.58% for the year ended June 30, 2007. Under provisions of the noncontributory plan, the Hospital contributed 11.59% of the vested account of the employees for the year ended June 30, 2007.

The Hospital's contributions to the Local Governmental Contributory Retirement System for the years ended June 30, 2007, 2006 and 2005 were \$4,914, \$4,536, and \$4,548, , respectively, and for the Noncontributory Retirement System the contributions for the years ended June 30, 2007, 2006 and 2005 were \$536,043, \$464,570, and \$457,351, respectively. The contributions were equal to the required contributions for each year. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

**GUNNISON VALLEY HOSPITAL
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A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 9 – MALPRACTICE LOSS CONTINGENCIES

The Hospital maintains insurance for malpractice liabilities in amounts considered adequate by Hospital management. At June 30, 2007, no claims had been filed in excess of such amounts; however, claims may yet be asserted arising from services provided in the past.

NOTE 10 – CHARITY CARE

The Hospital donates healthcare services to the community. The hospital's charitable philosophy is to provide care regardless of the patient's ability to pay. The decision whether or not to accept a request for charity assistance is made with the discretion and compassion of hospital personnel. Charity assistance is handled on an application basis and each application stands on its own merits. The total services donated during the year ended June 30, 2007 was \$221,682.

NOTE 11 – DONATED SERVICES

Volunteers donate their time to the Hospital performing non-essential services. No amounts have been reported in the financial statements for these services.

NOTE 12 – ECONOMIC DEPENDENCY

The Hospital is economically dependent on the medical services it provides within its geographic region of Sanpete, Sevier, and Wayne Counties, Utah. The Hospital received approximately 96.2% of its net operating revenues from services for the year ended June 30, 2007.

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of net patient receivables from payors at June 30, 2007, was as follows:

Medicare	24%
Medicaid	10%
Other third-party payors	52%
Self pay patients	14%
	<hr/>
	100%

**GUNNISON VALLEY HOSPITAL
SPECIAL SERVICE DISTRICT**

A COMPONENT UNIT OF SANPETE COUNTY

Financial Statements

June 30, 2007

NOTE 14 – NET ASSETS

Net assets at June 30, 2007:

Invested in capital assets, net of related debt:	
Property, plant, and equipment, net	\$ 10,974,211
Outstanding debt issued to construct capital assets	<u>(2,004,337)</u>
Total invested in capital assets, net of related debt:	<u>8,969,874</u>
Restricted net assets:	
Restricted for endowment	3,034
Restricted for debt service	176,704
Restricted capital assets	<u>3,093,374</u>
Total restricted net assets:	<u>3,273,112</u>
Unrestricted net assets:	<u>8,424,716</u>
Total net assets	<u>\$ 20,667,702</u>

NOTE 15 – CONSTRUCTION COMMITMENT

In of 2007, the Hospital received a \$3,500,000 loan from the Community Impact Board to finance an addition to the hospital. The budgeted costs of the project are \$6,300,000 for building and \$700,000 for equipment. The estimated completion date is April 2008.



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Administrative Control Board
Gunnison Valley Hospital Special Service District

We have audited the financial statements of Gunnison Valley Hospital Special Service District (the District) as of and for the year ended June 30, 2007, and have issued our report thereon dated August 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of one or more of the internal control components does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the District's financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gunnison Valley Hospital Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward + Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

August 2, 2007



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UTAH STATE COMPLIANCE REPORT BASED ON THE REQUIREMENTS, SPECIAL TESTS, AND PROVISIONS REQUIRED BY THE STATE OF UTAH'S LEGAL COMPLIANCE AUDIT GUIDE

To the Honorable Administrative Control Board
Gunnison Valley Hospital Special Service District
Gunnison, Utah 84634

We have audited the financial statements of the Gunnison Valley Hospital Special Service District for the year ended June 30, 2007, and have issued our report thereon dated August 2, 2007. As part of our audit, we have audited the Hospital's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2007. The Hospital received the following major assistance program from the State of Utah.

Community and Economic Development: Community Impact Loans

The Hospital also received the following non-major grant which is not required to be audited for specific compliance requirements: (However, this program was subject to test-work as part of the audit of the Hospital's financial statements.)

Department of Health: EMS Fines – Grants

Our audit also included test work on the Hospital's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues

The management of Gunnison Valley Hospital Special Service District is responsible for the Hospital's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above has occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Gunnison Valley Hospital Service District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to its major State assistance program for the year ended June 30, 2007.

This report is intended for the information of the Administrative Control Board, management, and the Utah State Auditor's office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

August 2, 2007

**GUNNISON VALLEY HOSPITAL SPECIAL SERVICE DISTRICT
SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS**

June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Gunnison Valley Hospital Special Service District.
2. There were no reportable conditions relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*.
3. No instances on noncompliance material to the financial statements of Gunnison Valley Hospital Special Service District were disclosed during the audit.

B. FINDINGS — CURRENT YEAR

None

C. FINDINGS — PRIOR YEAR

None